

**Merrill Lynch Australasia Investor Conference**  
**New York**  
**Thursday, 30 September 2004**  
**8.30am – 9.00am**

**Slide 1 – Trevor O’Hoy - President & CEO**

Good morning ladies and gentlemen.

On behalf of the Foster’s Group, I am very pleased to be speaking at the Merrill Lynch Australasia Investor Conference.

This conference is a special one for me.

It is my first since taking over as CEO of Foster’s in April, so I welcome this opportunity to talk about the next stage of our journey to be a “leading premium branded beverage company.”

**Slide 2 – Presentation Structure**

In today’s presentation I’d like to do three main things.

First, I would like to talk briefly about the beverage sector business environment – and specifically the **attributes that are critical to competing successfully**.

Second, I’d like to describe the evolution of the Foster’s premium beverage model, and talk about our **business priorities** and **some key changes in execution** which are being implemented under my leadership of the company.

And finally, I will draw this together, and describe the superior financial outcomes and markedly improved TSR performance, that I believe Foster’s will be well placed to deliver, as one of the key players in the global beverage sector.

**Slide 3 –Critical Success Factors – Brand Equity**

For commercial success in the beverage sector, a number of attributes are vitally important.

Firstly, **Brand Equity** is paramount.

Consumer choice of alcohol products is heavily influenced by:

- brand recognition;
- by brand strength; and
- by brand cache.

While certain types of alcohol consumption – especially wine – will be experimental and entail an element of discovery – there is evidence to suggest that consumers gravitate towards known brands, brands recognised for their:

- quality;
- reliability; and
- alignment to consumer needs, values and attitudes.

Strong brand equity, and developing “must stock” or “big-drive” brands, is becoming increasingly important, as both brand and retail concentration continues to accelerate.

#### **Slide 4 –Critical Success Factors – Premium Products**

While brand equity is paramount, there is also a clear long term trend towards **premium products**.

Nowhere is this more evident than in premium wine.

#### **Slide 5 – Premium Wine Market Share is Growing**

While wine as a category continues to show strong growth, premium wine continues to deliver stronger growth, aided by increased wine consumption and a long term trend for consumers to trade up - over time and with experience.

#### **Slide 6 – Premium Beer Market Share is Growing**

In beer, a similar trend exists.

While beer growth overall is flat to declining, the premium category continues to display healthy growth rates.

In Australia for example, while premium beer is still a relatively low percentage of total beer sales, the segment continues to grow, at high single digit rates.

Clearly a portfolio that includes premium products, is essential to capturing this growth.

#### **Slide 7 –Critical Success Factors – Multi-beverage Solutions**

Another critical success factor, is being able to provide customers and consumers with a range of products across beverage categories.

That is, providing a multi-beverage solution.

## **Slide 8 – Expanding Consumer Repertoire**

Consumers continue to seek and explore a wider repertoire of products.

This repertoire is expanding and becoming more interchangeable over time.

Successful beverage companies will recognise this dynamic, and provide a greater variety of products and alternatives for the consumer.

## **Slide 9 – Critical Success Factors – Consumer Insights**

This leads to our next attribute for success, **Consumer Insight**.

Understanding trends in terms of our consumers, allows us to better leverage consumer insights and their purchase decisions, and therefore allows us to develop better consumer product solutions.

I will talk about some Foster's initiatives in this area shortly.

## **Slide 10 – Critical Success Factors – Market Access/Distribution Strength**

Market access is the final critical success factor.

In terms of our customer base, retail divergence continues with fewer and fewer larger customers at one end and, more and more smaller, costly and difficult to service customers at the other end.

The trend towards retail consolidation is one that has been evident for a number of years.

This change is a fact of commercial life.

The suppliers that will be successful in this new environment – and Foster's intends to be one of them – will be those that:

- have products and brands that retailers need because their consumers demand them;
- work with retailers to assist them to build the profitability of the beverage sector of their business; and
- have the scale and brand strength to be relevant, to both large and smaller specialist retailers.

## **Slide 11 – Foster’s Premium Branded Beverage Model**

Given these factors, let me now talk about how we are positioning the Foster’s business to be a relevant and successful player in the global premium beverage sector.

Many of you will be familiar with the Foster’s business structure – there are three core divisions;

- CUB, a multi-alcohol beverage business in Asia Pacific, central to which is our strong presence in a well structured domestic beer market;
- Foster’s Brewing International, a business focused on global beer brand, Foster’s Lager; and
- Beringer Blass Wine Estates, an international premium wine business.

Disposal of the retail pubs business, ALH, and the announcement of our intention to divest the non-core Lensworth property business in fiscal 05, will see the Foster’s portfolio evolve to a pure premium beverage business.

The Foster’s business model has a number of key attributes. These are:

### **Strong brand equity.**

Our portfolio of premium branded products, across beer, wine and increasingly spirits and cider, represents:

- high product quality;
- strong consumer brand recognition; and
- a clear fit for those consumers seeking premium choice beverages.

Superior, premium brands are the foundations to generating high margins and profitable growth.

A key competitive advantage from having such a strong margin structure, is the ability to invest in brand development, in brand extensions or new product development, on a sustainable and long term basis.

Central to the Foster’s business model, is the concept of continuous improvement, funding continuous innovation, brand building and new product development.

### **Another Foster’s attribute is Distribution Strength.**

In Australia, CUB’s distribution network reaches over 22,000 customers, providing an unparalleled link with our customers, and a range of opportunities in terms of introducing new products.

Through distributors in the US, Beringer Blass offers arguably the best premium and luxury wine portfolio.

The fact that Beringer Blass's distribution is undertaken by the leading distribution houses in virtually every major market, is a reflection of the recognised strength of its portfolio.

The 3rd attribute of the Foster's business model is **diversification benefits**.

Having businesses spread across products, geographical markets and production sources, not only mitigates earnings and cashflow risk, but increasingly – as Foster's shifts its portfolio to more of a multi-beverage focus – it will offer customers and consumers a range of product choices and cross promotional opportunities.

A final attribute is **balance sheet strength and flexibility**.

While our focus is currently on restoring growth in wine, we want to ensure that through the balance sheet, cash flow and improved equity market rating, that Foster's has the capability to consider involvement in appropriate industry consolidation activities at the appropriate time.

As I will demonstrate, the Foster's business model is capable of delivering a set of financial outcomes, which I am certain will make Foster's a highly attractive investment choice – not only within the beverages sphere - but more broadly as an equity investment.

Clearly, in recent years, Foster's has not delivered the appropriate level of shareholder value and has not delivered on the potential provided by the Beringer Blass acquisition.

I can assure you, that the new senior management team and the broader Foster's organisation, have a commitment to utilising Foster's capabilities, to deliver the Group financial metrics and in turn, stronger shareholder returns.

In April when I commenced as CEO I inherited a great set of businesses with great brands.

The challenge now, is to build one business with one culture, and one that is even better, and more sustainable, than the old business.

## **Slide 12 – Foster's Business Priorities**

With this in mind, I have re-set Foster's business priorities as follows:

1. Maintain and build on the momentum within CUB to build a multi-beverage powerhouse in the Asia/Pacific region;
2. Maximise and leverage the strength of the Foster's beer brand around the world;
3. Develop a superior global premium wine business; and

4. Adopt a shared and consistent way of working across the Group.

I'd like now to briefly elaborate on each of these priorities.

### **Slide 13 – CUB - A multi-beverage powerhouse in Asia Pacific**

CUB is well progressed with its transformation into a multi-beverage business.

Its portfolio now comprises not only iconic beer brands, but a developing suite of RTDs and spirits and most recently wine.

With most of the projected growth in the Australian alcohol market attributable to RTDs and wine, a multi beverage approach is essential to continue to drive growth.

The CUB beer base provides a very solid platform to pursue growth across other categories.

### **Slide 14 – CUB - A multi-beverage powerhouse in Asia Pacific – Cont'd**

So with the transformation well underway, the challenge today is to maintain and accelerate the momentum achieved to date, so CUB can continue to deliver Foster's earnings growth of 6-8%, year in year out, as well as the other financial metrics shown on this slide.

CUB's focus will be on maintaining the existing brand portfolio, and continuing the expansion into other categories.

Innovation, new product development and leveraging CUB's pre-eminent distribution channel will be central to this.

### **Slide 15 – Foster's Brewing International – Extract more value from the Foster's brand**

Turning now to our global beer business, Foster's Brewing International, and specifically its flagship brand Foster's Lager.

Foster's is the 7th largest international beer brand, with sales volumes of over 86 million cases distributed across 150 countries.

Due mainly to long term commercial arrangements negotiated many years ago, these sales generate an earnings contribution of only \$44 million – less than one tenth of the contribution of CUB for a similar volume.

Clearly we recognise we have a brand of significant international value, and are looking for new ways to extract more appropriate value for Foster's Group.

The Foster's International team has an aggressive marketing and product development programme in place.

In addition, our approach will be:

- to work more closely with our licence partners to extract greater value;
- to look more aggressively at opportunities where the licence arrangements do not apply to build greater market presence; and
- to determine where value can be generated across the broader Foster's portfolio of beverages.

### **Slide 16 – BBWE – Global Premium Wine**

Turning now to Foster's wine arm, Beringer Blass Wine Estates.

Beringer Blass has grown to become a global leader in premium wine, with volumes of over 18 million cases, revenues of A\$1.6 billion, industry leading wine trade margins at 21.6% and cashflow generation of around 70% of earnings.

Flagship global brands, Beringer and Wolf Blass, are the #1 premium brands by value in the US and Australia respectively.

While Beringer Blass is a very good business – we want to make it a great business.

### **Slide 17 – BBWE – Global Premium Wine Continued**

Central to this goal, is delivery of the financial outcomes associated with a recent review of Beringer Blass's wine trade operations.

This review was in response to increasingly competitive wine market conditions, particularly in North America.

Broadly speaking, the initiatives to be taken as a result of the review include:

Firstly, **Revenue Growth** initiatives.

There will be substantially increased investment in core and secondary brands, and acceleration of new product development and innovation, to deliver above category volume and revenue growth.

Our plans are to restore the Beringer Blass North American portfolio, to a growth rate at above the premium category, something which it has been able to deliver historically with the exception of the last couple of years.

Second, there will be a focus on **Supply Chain Efficiencies**, which entails a range of initiatives planned to:

- simplify production operations;
- reduce costs; and
- improve capital utilisation in both the US and Asia Pacific.

A major part, at least 50%, of the estimated cost savings, of between A\$60 million and A\$85 million between F07 and F09, will be re-invested into brand development and marketing activities.

The third priority is the **Alignment of Future Supply and Demand**.

A number of measures have been taken to better align the future supply of fruit in North America with forecast demand.

This will result in;

- greater flexibility in sourcing of fruit; and
- greater use of outsourcing, to improve capital returns and ensure fruit input is better aligned to the desired margin structure of products.

The returns for the wine business have clearly been unacceptable in the past, and these initiatives will provide the means to:

- achieve double-digit earnings growth from F06;
- move trade margins back to mid-20%; and
- deliver, a low double-digit return on capital by F09.

Improving the performance of our existing wine business is clearly our priority.

### **Slide 18 – Wine sector still highly fragmented**

A high level of fragmentation still exists in the wine industry.

This chart shows wine market concentration, relative to that of beer and spirits – with the top 10 players in wine, holding 11% cumulative share, versus 45% and 23% in beer and spirits respectively.

This clearly presents an opportunity for further consolidation activities.

While Foster's has the capability to consider involvement in appropriate industry consolidation activities at the appropriate time, that time is at least 12 – 18 months away.

## Slide 19 – Business Execution

Moving now to my final priority, adopting shared and consistent ways of working across the group – or streamlining our business execution.

While the Foster's business model and strategic direction remains largely unchanged, there will be some fundamental changes in the manner in which we execute strategy and operate as a business.

You will see three key areas of change in our business execution:

The first change is **Operating as One Organisation**.

I believe fundamentally that Foster's has not effectively utilised its capabilities across its business divisions, beverage categories and geographies.

It is imperative that Foster's operates as one organisation, capturing the benefits of:

- shared intellectual capital;
- shared insights into consumer behaviour;
- its scale;
- shared back office capabilities; and
- in certain areas, shared approaches to customers.

I can give you numerous examples of where this is already starting to happen:

- Beringer Blass recently implemented **Manugistics**, a demand, production and distribution forecasting system, using CUB's expertise, without the need for expensive external consultants;
- CUB and Beringer Blass successfully **jointly developed a commercial wine** capable of distribution through CUB's extensive network;
- A joint **global consumer insights function** has been developed and it is co-headed by Jamie Odell and John Murphy, heads of the wine and beer divisions respectively; and
- We have initiated a programme to look at the opportunities to capture both synergies and benefits in our administrative and back office functions.

In total these functions now consume around \$200 million of expenditure annually. This is an area where I believe we can continue to make efficiency gains.

The second key area of change in business execution relates to focusing on consumers.

Under my leadership, Foster's will become a more **consumer insights driven** company.

Recognition of the imperative of maintaining and further developing the Foster's premium brand portfolio, based on a deep understanding of beverage consumption patterns internationally, is key to continued demand for Foster's products.

The final key area of execution change relates to **Financial and Capital Rigour**.

I have a strong focus, as does the leadership team, on generating financial outcomes – operating with greater financial and capital rigour.

### **Slide 20– Group Financial Targets**

The Foster's business model and the new approaches to executing on our strategies are designed to deliver the following set of financial metrics over the long term:

- Sustainable earnings growth above 10%, in normalised EPS terms;
- Operating cashflow of at least 75% of EBITDA;
- Maintenance and strengthening of our premium margin structure, at a mid 20% level;
- Improved return on capital invested – strengthening returns to between 15-20%; and
- Maintained balance sheet strength and flexibility through retention of our investment grade credit rating.

Our ultimate objective is to achieve a TSR in the top quartile of our Australian and international competitive set.

Obviously capital and portfolio management also remain a priority at the group level.

The focus of the Group on exploiting organic growth opportunities and rebuilding the performance of the Wine part of the portfolio, has been associated with a major capital management exercise.

Over the last 12 months, Foster's has bought back over 10% of shares on issue.

In March we commenced a programme to purchase up to an additional 125 million shares, of which 25 million have been purchased.

We expect further capital management activities to occur this financial year, with additional funds available from the expected divestment of both the Lensworth business and the 10% residual holding in ALH.

## **Slide 21 – Conclusion**

In conclusion, successful execution of these priorities and achievement of these targets will to my mind, establish Foster's indisputably as a leading international premium beverage company.

With initiatives to restore or maintain growth in each of our core beer and wine business well underway, our long term objective is to carve out a sustainable competitive advantage for the group, based on our ability to satisfy more consumers, on more occasions, in more venues than our competitors.

Foster's is entering an important stage of its development, and I look forward to delivering on the great potential the company has.

**Thankyou.**